

The Impact of Macroeconomic Factors Interest Rates and Exchange Rates Govern on Stok Index of LQ45

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ABSTRACT

This research aimed to investigate the macroeconomic factors, represented by interest rate Bank Indonesia and exchange rate rupiah to US dollar in influencing volatility of LQ45 stock price index on the Jakarta stock exchange. The data was collected from secondary data. The periods were January 2013 to December 2019. The method used was the Error Correction Model. This method will deliberate long-term and short-term analysis of the influence of macro variables affecting the LQ45 Stock Price Index. The results depicted that in the short-term period, both interest rate Bank Indonesia and exchange rate rupiah to US dollar had no significant influence on the LQ45 stock price index, then for the long term period, both interest rate Bank Indonesia and exchange rate rupiah to US dollar govern on the LQ45 stock price index.

Keywords: *Interest Rate, Exchange Rate.*

1. INTRODUCTION

This research examined macroeconomy variables that govern to LQ45 index. There are two macroeconomy variables represented by interest rate and exchange rate in this research. We elaborate on those variables because movements or changes in these variables are very vulnerable to the prices of goods in the market. This means that they will give different volatilities to the LQ 45 stock index, representing the market price of the shares of companies listed on the stock exchange.

Preceding research explains that shocks to the rupiah exchange rate and inflation can change the LQ45 market price index only in the long term [1]. The other study examined the effect of inflation, interest rates, GDP, exchange rates, world gold prices, world oil prices, and the Dow Jones index on the Nikkei 225 index. Displays the research variable inflation results do not affect if it is under 2%, Japan's benchmark interest rate, Value the Japanese Yen exchange rate does not affect because investors prefer to invest in Japanese Yen-based investments [2]. The condition was consistently exhibiting evidence for the floating price hypothesis considers market. [3].

Another research that confidently made this theory along with [4] The relationship among some macroeconomic variables such as the exchange rate, world oil prices, and international capital market index with the Indonesian stock market volatilities still pretty good to study. Some re-researchers still found inconsistent results and its dependence on the international capital market and financial market's volatilities, particularly when there was shocking in the international stock markets, such as the financial crisis in America.

As in [5], macroeconomic factors can directly affect stock performance and company performance, in this case, represented by the LQ45 stock price index. It should be preserved policy to increase or decrease interest rate as one of macroeconomy factor, and to keep stable exchange rate fluctuation to induce economic situation. Indeed, Macroeconomic factors positively influence the stock price on the Indonesian Stock Exchange [6].

Therefore, it is always interesting to investigate volatile macroeconomic variables to control the market's effect and keep stable on the stock markets. This study uses two macroeconomic factors, namely interest rates and exchange rates, in influencing movements in the LQ45 stock price index. This is prominent since the

listing companies in the LQ45 group are liquid and are in great demand by investors.

Related to [7], interest rate consists of two types, real interest rate, and nominal interest rate. The real interest rate is defined as the difference between the nominal interest rate and the rate of inflation; meanwhile, the nominal interest rate depicts how fast the number of USA dollars in bank account rises over time. The real interest rate elucidates how prompt the purchasing power of a bank account grows over time. Furthermore, the interest rate that the bank pays is defined as the nominal interest rate, and the interest rate corrected for inflation is named the real interest rate.

Following to [5] Exchange Rate is the price of one currency in terms of another currency. There are two situations on it, appreciated, an incremental in the value of one currency relative to other currencies, then depreciated, the value of exchange rate is reducing in the value of one currency relative to other currencies.

The index is the LQ45 index is the market capitalization value of the 45 most risky stocks and has an immense capitalization value which is an indicator of liquidation. Having a high share transaction value makes stocks included in the LQ45 index constitutes one of the best options in investing, [8].

2. METHODS

This research is a quantitative research. The data used in this study are secondary data obtained from the Bank Indonesia website. The interest rate and exchange rate data examined are the period 2013 to 2019. The LQ45 index data was extracted from www.theinvesting.com with the same period, 2013 to 2019. So, the data used is time-series data over six years.

Data analysis will be processed using the error correction method commonly known as the ECM Method. This method can provide information on the influence of independent variables on the short term and long term. Therefore, it can contribute to decision-makers making better decisions in particular periods [9].

3. RESULTS AND DISCUSSION

From the results of data processing using eviews, by following the steps of the model error correction method as in [9]. Then, found the results of data on the short term and long- term variables in this investigation as follows:

The data depicted in the Table 1 shows the interest rate value of 0.5739. This indicates a value greater than five percent, which means that it is not significant, then conclusions drawn at the short-term interest rate variable do not affect the movement of the LQ45 index. While the exchange rate variable gives a value of 0.9853, it is greater than the significant value, which means that the

variable exchange rate does not contribute to the movement of the LQ45 index in the short term.

Table 1. Result in Short Period

Description	Result
Interest rate	0.5739
Exchange rate	0.9853

The Table 2 shows that the interest rate and exchange rate variables are equal to 0, less than 5 percent, meaning that the two variables' changes affect the LQ45 index. The results of this study are in line with the results of the study (Purwanto, 2018), [10] but contrary to the research (Prabowo, DS, & Asandimitra, 2019) and [11] who found that the two variables did not affect the stock index.

Table 2. Result in Long Term

Description	Result
Interest rate	0.0000
Exchange rate	0.0000

The results in the short-term investigation of two variables, interest rate, and exchange rate, can ignore their movements in the short term in making decisions. However, it is different in a long-term situation. This needs to be observed because the business world does not only run business quickly but also for an unlimited time, in other words, long term. Therefore, it is necessary to observe the variable interest rate and exchange rate in determining the decision. Thus, the results of the decision will exhibit results that are beneficial to the business being run.

As in [5], macroeconomic factors can directly or indirectly affect stock performance. It should be preserved policy to increase or decrease interest rate as one of macroeconomy factor, and to keep no big shock to exchange rate fluctuation for inducing economic situation. Macroeconomic factors are factors that exhibit color and image to the economy of each country. Therefore, the right policy is the best way to stimulate these factors' movement [5]. Indeed, it can impact the company's business performance illustrated in the stock index in this LQ45.

4. CONCLUSIONS

From the results of the above research, it can be concluded that the macroeconomic factors, in these, are the interest rate and exchange rate, the movement does not affect on the short term but affect on the long term. It is prominent to preserve the stable condition and build the best policy to support a conducive economy for sustainable business in the future.

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